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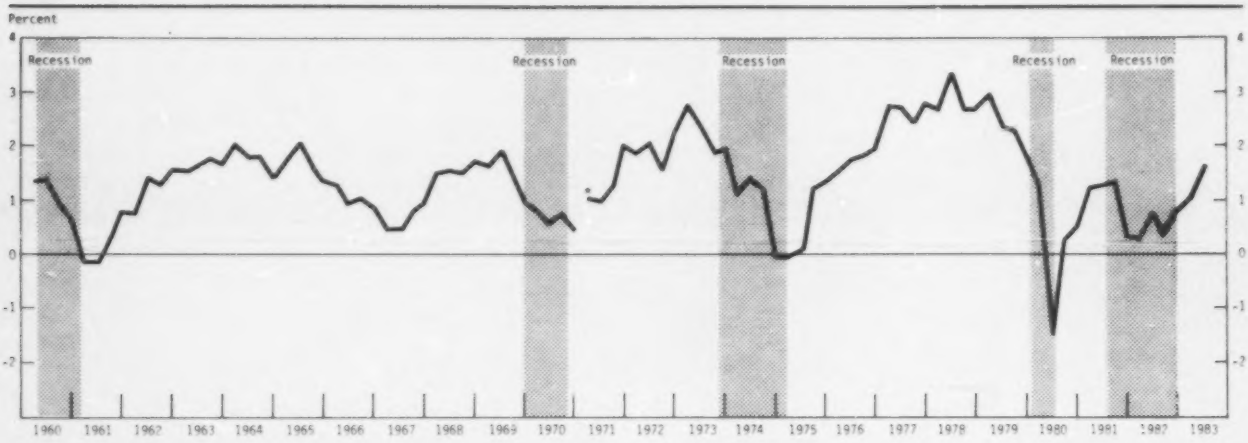
FinanceFacts

A Monthly Publication on Consumer Financial Behavior SEPTEMBER 1983

Ratio of Consumer Installment Credit Net Change to Disposable Personal Income
Quarterly Data



* Addition of gasoline companies in 1971.

American Financial Services Association Chart
Source: Federal Reserve and Department of Commerce.

Along with other economic indicators, consumer installment credit growth picked up sharply in the months since the end of the 1981-82 recession last November. After an actual decline in October 1982, consumer installment credit increased $2-3 billion in most months from November 1982 through May 1983 before jumping to a $4-5 billion rate of increase in June and July (the latest months with available data). The $4.84 billion increase in July was a record for one month. Much of the recent credit increases is associated with the pickup in automobile sales, but non-automotive credit has turned up as well. Revolving credit, which consists mostly of credit card credit, expanded at almost a 15 percent annual rate in July 1983 and the large "other" category that includes personal loans, sales finance contracts (other than for mobile homes), and home improvement loans increased at a 13 1/4 percent annual rate in July.

But rather than suggesting the onset of unusually rapid growth of consumer borrowing, the upturn in consumer credit in 1983 reflects normal cyclical patterns. As may be seen in the chart, the ratio of the quarterly net change in consumer credit outstanding divided by disposable personal income (income before taxes) normally picks up at the start of economic recovery. From approximately zero or a small negative level right around the end of a recession, this ratio typically picks up until slightly before the cyclical peak when it declines in advance of the next recession. This pattern has been very regular in the postwar era, including during the years prior to those in the chart. Even the false upturn in mid-1982 is consistent

(text continued on last page)

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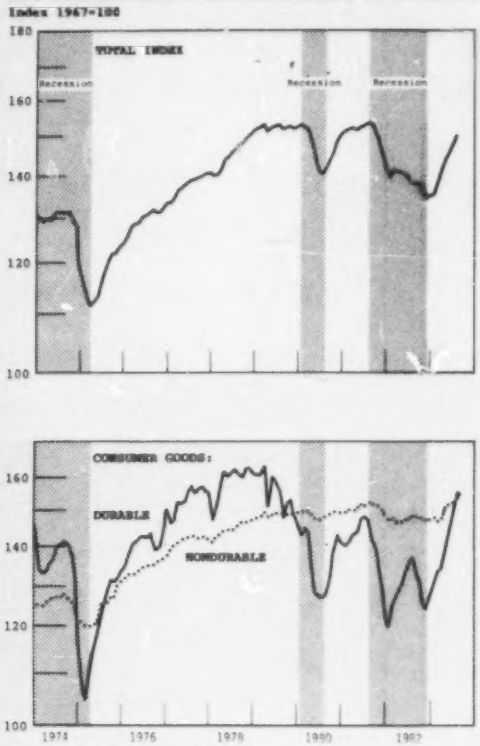
Index of
Industrial Production
by months (seasonally adjusted) 1974-1983



Source: Board of Governors of the Federal Reserve System

INDUSTRIAL PRODUCTION

Due largely to more moderate increases in output of autos and steel than occurred in July, the index of total industrial production rose at a rate estimated at 0.9 percent (after seasonal adjustment) compared with revised increases of 2.0 and 1.3 percent in July and June. The increase was led by gains in home goods and construction supplies, and most other product and materials groupings grew as well. The index, at a level of 150.5 (1967=100), has now recovered about eighty percent of the decline which occurred since the last high of 153.9 in July 1981. Output of consumer durable and nondurable goods both increased more moderately in August as well, rising 1.4 and 0.3 percent respectively, compared to increases in June of 3.1 and 1.3 percent.

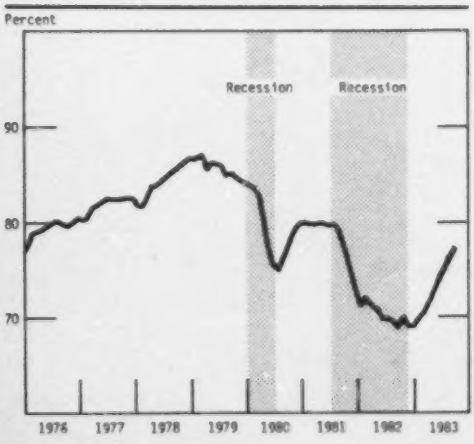
CONSUMER INSTALLMENT CREDIT

Consumer installment credit outstanding (seasonally adjusted) increased more in July - a 16.4 percent annual rate of growth - than it has since February of 1979. The dollar increase of $4.84 billion was a record jump, and brings total outstandings up to $359,571. Credit of all types except that for mobile homes grew at very high annual rates: automobile credit at 21.4 percent (17.7 in June, 11.9 in May), revolving credit at 14.8 percent (22.2 in June, 9.5 in May), and "other" credit at 13.2 percent (9.8 in June, 7.8 in May).

CAPACITY UTILIZATION

Capacity utilization in manufacturing rose in August although, like industrial production, at a slower pace than in recent months. Reaching a level of 76.7 percent, the increase was only 0.5 of a percentage point, the smallest increase since that in February of this year (0.6). Within manufacturing most groups did inrease utilization of capacity, with the exceptions of electrical machinery which declined 0.7 of a percentage point due to the telephone company strike, and petroleum products. Also largely responsible for the lower rate of overall increase in August was auto production, where utilization rose only 1.3 percentage points, compared with 6.8 points in July as reported in last month's Finance Facts.

Capacity Utilization -
Total Manufacturing



Source: Federal Reserve Board

Ysabel M. Burns

CONSUMER SECTOR INDICATORS

		1982				1983	
		I	II	III	IV	I	II
EMPLOYMENT, INCOME, AND SPENDING							
Employment: Household Survey 1/		99,660	99,720	99,605	99,135	99,090	99,933
Employment - Population Ratio 2/	%	58.1	58.0	57.7	57.3	57.1	57.4
Disposable Personal Income 3/	$	2,127.9	2,159.0	2,191.5	2,227.8	2,255.9	2,301.0
Personal Consumption Expenditure 3/	$	1,938.9	1,972.8	2,008.8	2,046.9	2,073.0	2,147.0
Personal Saving 3/	$	130.8	127.1	123.0	120.8	121.7	91.5
CONSUMER INSTALLMENT CREDIT							
Total Outstanding 4/	$	329.0	333.9	335.2	339.3	345.4	354.7
Percent Change	%	0.8	1.5	0.4	1.2	1.8	2.7
Market Share (%)							
Commercial Banks		44.6	44.4	44.3	44.2	44.2	44.5
Finance Companies		27.5	27.8	27.6	27.7	27.7	27.1
Credit Unions		13.9	13.8	13.8	13.8	13.7	13.7

1/ Excludes Resident Armed Forces. Thousands, seasonally adjusted quarterly average
2/ Civilian employment as a percent of the civilian noninstitutional population, seasonally adjusted quarterly averages
3/ Billions, seasonally adjusted annual rate
4/ Billions, seasonally adjusted

Source: Federal Reserve Board, Bureau of Labor Statistics, U.S. Department of Commerce, AFSA.

The above data are updates and revisions to data last presented in the June 1983 issue of Finance Facts. Estimates are revised periodically by the statistical agencies to incorporate methodological changes and new source data.

with this cyclical pattern, since the economy as a whole also experienced a brief false upturn in the spring of 1982 before resuming the recession for another six months.

The cyclical pattern in consumer credit growth is caused by a variety of interrelated factors. The end of a recession is marked by declining interest rates, cyclically low consumer debt levels, rising employment and income prospects and increasing consumer confidence. Together with a backlog of postponed purchases of durable goods, these factors contribute to an upswing in consumers' spending including credit buying. After a few years these factors change: income increases lag, inflation accelerates, debt levels rise, interest rates increase, economic policy tightens, consumer confidence wanes, and part of the backlog of durable demand is satisfied. Then, consumer borrowing relative to income trails off and the cycle begins anew.

Based on current expectations of continued economic growth for the balance of this year and next, the net monthly increases in consumer credit should continue their uptrend through 1983 and well into 1984. However, continuation of increases like the record $4.84 billion rate experienced in July is probably unlikely for August and September, given the slower growth of automobile sales and the decline in durable goods sales that has occurred more recently. More likley is resumption of consumer installment credit growth in the $2 1/2 - 3 1/2 billion monthly range for the rest of this year. Monthly increases of approximately $3 1/4 billion would maintain the credit growth-income ratio in the chart at about its current level, which, of course, is up sharply from last year. More buoyant automobile and durables sales could put the ratio over 2 percent later this year or next year.

Over the longer term it seems less likely that consumer installment credit growth will approach 3 1/2 percent of disposable personal income in this business expansion as it did in the last two cycles. This conclusion arises from two considerations. The first, more an assumption and a hope than a conclusion from hard evidence, is that Federal government economic policy makers this time will adopt responsible fiscal and monetary policies that avoid the inflationary excesses of the late 1970's. Continued slower inflation should limit the buy-in-advance-of-price-hike strategies that swelled consumers' borrowing during those years. The second is that deregulation of interest rates on consumers' financial assets should make holding financial assets more attractive relative to credit-financed real assets in this cycle than was true the last time. Still, at current and projected levels of disposable personal income, installment credit growth of 2-2 1/2 percent translates into monthly increases in the $5 billion range in 1984.

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